



Market and Trade Data

South African Supermarkets Boast Super Sales and Potential

By Chase Winter and Jill Havekost

As they reap record profits and aggressively expand, South African supermarket chains offer more products than ever to their consumers — and possibly more opportunities to U.S. exporters. Retail grocery sales added up to nearly \$22.4 billion in calendar year 2006, and market observers expect that amount to shoot up by as much as 25 percent in the next four years.

The four major South African supermarket leaders — ShopRite, Pick 'n Pay, SPAR, and Woolworths — dominate the country's flourishing retail grocery market. They claimed almost 65 percent of retail grocery sales last year. In the future, they expect to capture an even greater market share and to expand into other countries in Southern Africa.

Market observers project that if U.S. exporters can successfully navigate the procurement, distribution, and import practices of the dominant players in the market—and overcome concerns about price and distance—South Africa may prove a lucrative opportunity.

Equality Creates Economic Opportunities

The nation's first multiracial democratic elections in 1994 signaled the end of apartheid, a system of institutionalized racism. Retail grocers quickly capitalized on a new era of economic opportunity. No longer inhibited by racial segregation, South African

Supermarkets account for approximately 55% of national food sales.

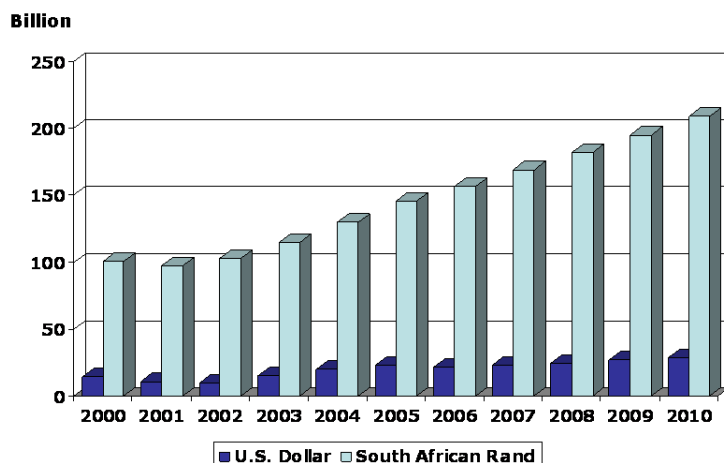
supermarkets expanded and diversified. They now cater not only to upscale neighborhoods, but to townships and lower-income market segments. With this placement strategy and so many new supermarkets, the average distance a South African must travel to a supermarket has decreased from 20 kilometers to 1.7 kilometers.

Despite the fact that supermarkets have experienced explosive growth in South Africa and now account for approximately 55 percent of national food sales, they still make up only about 2 percent of all food retail outlets. The growth potential for South African supermarkets is therefore huge — and untouched so far by foreign chains.

Sizing Up Supermarket Chains in Southern Africa

Supermarket Chain	Number of Stores	Stores in South Africa	Stores Outside South Africa	Revenue (July 1, 2005-June 30, 2006)
Pick'n Pay	340	323	17	\$5.25 Billion
Shoprite	850	721	129	\$4.8 Billion
SPAR	846	799	47	\$2.4 Billion
Woolworths	312	300	12	\$2.2 Billion

South Africa's Grocery Retailers' Sales Are Projected To Continue Rising



Expansion Within Africa

South Africa is the economic powerhouse of Southern Africa. Major supermarket retailers are expanding north, drawn by higher profit margins and with a view to being the first to make commercial inroads.

These potential benefits motivate South African grocers to move despite the problems that plague the region. South Africa's neighbors — Angola, Zimbabwe, Mozambique, Swaziland, Lesotho, Botswana, and Namibia — struggle with AIDS and crippling economic problems.

Other problems South African retailers encounter as they expand elsewhere into Southern Africa include the problem of reorganizing stores to suit local preferences and pricing, handling currency volatility, border crossings, trade barriers, non-tariff barriers, and developing supply chains and local procurement from scratch.

Those South African supermarkets which have established a presence in neighboring markets strive to source from local producers, but many times, it is cheaper — even with transportation costs — to source from South Africa, where distribution channels are reliable and products are high quality.

This approach, however, has led to claims of South African corporate imperialism and accusations that South African supermarkets undermine local farmers, manufacturers, and less-competitive supermarkets. Supermarkets counter with claims that they create employment, lower prices, and improve infrastructure.

Import Overview

With a modern industrial base, fertile soil, and a favorable climate, South Africa is largely food self-sufficient with the exception of wheat, rice, and oilseeds. This reduces the need of supermarkets to import foods. However, South African supermarket chains still must import fruits and vegetables to adjust to seasonality and to provide their customers with products not found in South Africa.

Despite expressing an interest in U.S. products, none of the four major supermarkets import U.S. fruits or vegetables because of distance, cost, and South African trade barriers. They do, however, stock a small amount of processed U.S. goods.

There are main supermarket distribution channels, but how each supermarket chain utilizes them varies. U.S. exports can enter supply chains via specialized third-party importers, supermarket chains, and wholesalers. Each method has its own advantages and disadvantages.

The General Market

South Africa suffers from tremendous income inequality. Its population can be classified into modern consumers and marginalized consumers.

The group that offers the most promise to U.S. producers is that of the established consumer, which constitutes about one-quarter of South Africa's population — just over 12 million people. They represent approximately 65 percent of total household cash expenditure.

Woolworths, Pick 'n Pay, and some SPAR stores target these established consumers.

Few members of the target group live in the other countries into which South African supermarkets have expanded. Though these markets may not offer as much potential for U.S. exporters, spillover benefits are still possible.

Focus on the Chains

Pick 'n Pay : Pick 'n Pay serves consumers in a variety of formats, including hypermarkets, supermarkets, and gas marts. The stores strive to appeal to middle- and upper-income consumers who live in South Africa's urban and suburban areas. Last year, the chain earned \$5.25 billion in revenue.

Pick 'n Pay has not done any recent business with U.S. suppliers — despite interest in product lines — because of the high freight costs and cost of U.S. products. The last import from the United States to South Africa's Pick 'n Pay was a shipment of grapes in 1998.

ShopRite: ShopRite, the largest supermarket chain in Africa, aims to continue expansion across the continent. Its three chains — ShopRite, Checkers, and U Save — target different demographics. ShopRite and U Save cater primarily to the lower- to middle-income segment, while

Weighing the Alternative Distribution Channels		
Third-Party Importers, Agents, Distributors, or Brokers	Supermarkets	Wholesalers
Pros	Pros	Pros
Knowledge of U.S. products Some supermarket chains import predominantly via third parties Can deal in large quantities as well as small quantities that supermarket chains might not want to handle Can mean low overhead costs for supermarkets Sell to multiple retailers	Dealing with HQs reduces cost of middle-men, potentially reducing expenses to the supermarket SPAR, Woolworths, and Shoprite all have prominent import divisions Have interest in procuring U.S. exports directly from manufacturer	Wholesalers deal in large volumes U.S. product lines can enter non-supermarket chain food retail sector
Cons	Cons	Cons
Cut into profit margin of supermarkets May make U.S. exports more costly at point of sale	Pick 'n Pay primarily imports through third parties Supermarket chains do not have a great understanding of U.S. products Supermarkets may be hesitant to import high volumes of product due to overhead costs Supermarkets require U.S. manufacturer to market products	The four supermarket chains detailed in this article do not typically source from wholesalers

Checkers focuses more on those in the middle- and upper-income groups.

Currently, ShopRite does not import from the United States because its goods cost more than those of other suppliers. Two years ago ShopRite expressed an interest in U.S. chicken, but anti-dumping measures closed the market despite ShopRite's lobbying.

SPAR: SPAR South Africa has operated under a licensing agreement with a parent company in the Netherlands since 1963. SPAR operates under a voluntary trading system, in which individual SPAR stores rely on headquarters for guidance but have a high degree of independence. Last year, these business practices helped SPAR stores — Superspar, SPAR, and Kwikspar — earn \$2.4 billion in revenue.

SPAR marketing representatives visit trade shows throughout the world looking for products to take back to South Africa and present at a special biannual SPAR trade show for franchise owners and distribution centers. Regional distribution center owners visit these tradeshows and choose products to buy. Headquarters then imports the products through a clearinghouse or importer. Imports can also come to distribution centers or stores through a local importer or supplier.

Woolworths: Woolworths' 300 South African stores include food stores, corporate stores with apparel sections, micro food stores in rural areas, franchise stores, and gas marts. It caters to consumers in the upper- and middle-income groups. Last year it earned \$2.2 billion, with food sales accounting for \$1 billion.

During the past few years, Woolworths has experienced explosive growth averaging 22 percent annually, and has launched aggressive expansion plans to open 130 new stores in the next five years.

Woolworths avoids importing from the United States because executives feel unfamiliar with the market, have not found a viable source, and have concerns about product prices being accurate when they get to the store.

Woolworths indicates that U.S. producers need to make an effort to market products and correlate with Woolworths' customer

Analysis of South African Supermarket Chains as a Market For U.S. Food Exports

Strengths	Weaknesses
<p>Many U.S. product lines unavailable</p> <p>Uniqueness of some U.S. product lines</p> <p>Diversity of U.S. products</p>	<p>U.S. goods expensive</p> <p>Unfamiliarity with U.S. products</p>
Opportunities	Threats
<p>Niche markets-such as organics</p> <p>Marketing of products, development of brand loyalty.</p> <p>Direct supply of supermarkets via distribution center</p> <p>Growing upper and middle classes</p> <p>New market for product lines not yet available</p>	<p>European and Far East competition</p> <p>Large fluctuations in rand-dollar exchange rate</p> <p>Protectionism-such as sanitary and phytosanitary restrictions</p>

profile. Woolworths' efforts to stock green goods may provide an opening for U.S. organic product suppliers.

U.S. Prospects

The dynamic growth in the South African supermarket sector in the last two decades, and its potential to expand, indicate its significance for U.S. food producers.

The consolidation of the retail grocery sector around the four main supermarket chains, giving them a combined market share of 65 percent, makes them primary markets for U.S. food exporters looking at South Africa.

U.S. suppliers can connect to the South African consumer market by dealing directly with supermarkets' procurement and distribution networks. This consolidation can reduce costs for both South African supermarket chains and U.S. food exporters.

First, however, U.S. food exporters must convince South Africa to buy their wares. Commonly cited barriers to this objective include distance and price. Other obstacles include a lack of general knowledge about U.S. products and markets.

Products South African Supermarkets May Be Interested in Importing

- Out-of-season stone fruits
- Seafood, especially shellfish and canned salmon
- Organics
- Niche products
- Apples*
- Tree nuts, especially Almonds
- Chicken*
- Turkey preparations
- Out-of-season grapes
- Confectioneries
- Sauces
- Processed fruits and vegetables
- Products not currently available in South Africa

*Currently facing import restrictions

These problems have not kept all U.S. exports out of South Africa, however. In fiscal 2006, U.S. agricultural, fish, and seafood exports totaled close to \$150 million. Just over \$55 million was shelf-ready, consumer-oriented foods and beverages, and essentially the same amount was in semi-processed agricultural products, primarily destined for food and beverage manufacturers.

But the United States has the opportunity to provide South Africa with much more. By importing from the United States, South African supermarkets could increase the variety of products they stock on their shelves and offer U.S. exporters an incredible new opportunity.

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